



STATE OF WASHINGTON

August 25, 2010

The Honorable Dan DiGuilio, Mayor
City of Port Angeles
PO Box 1150
Port Angeles, WA 98362

Mr. Orville Campbell, Chairman
Port Angeles HarborWorks Development Authority
PO Box 2609
Port Angeles, WA 98362

The Honorable George Schoenfeldt, Chairman
Board of Commissioners
Port of Port Angeles
PO Box 1350
Port Angeles, WA 98362

Re: Remedial Action Grant Funding--HarborWorks at the Port Angeles Rayonier Mill Site

Gentlemen:

Thank you for meeting with us on August 3, 2010, regarding the Port Angeles Rayonier Mill Site (Site). Other participants included staff from the city of Port Angeles, the port of Port Angeles and the Port Angeles HarborWorks Development Authority (HarborWorks). Additionally, staff from the Attorney General's Office and staff from the Toxics Cleanup Program, Washington State Department of Ecology (Ecology) attended.

This letter follows up on our discussion. We appreciate the creative and problem-solving approach you brought to the meeting. We acknowledge and appreciate the hard work and perseverance exhibited by the HarborWorks partners and staff. Many of your efforts have catalyzed the community's focus on the Site cleanup and on envisioning redevelopment of the Site. Your due diligence investigation of the Site brought out key information necessary for creating a responsible proposal for investing public funds. Your promotion of dialogue about Ennis Creek helped unveil common ground and support for restoration. We also recognize that the City's recent achievement towards a purchase agreement with Rayonier for a portion of property took persistent and strategic negotiations. Congratulations on these accomplishments.

We would like to reiterate some key points raised at the meeting. During the meeting, you asked Ecology to provide you with \$4 million in remedial action grant funds to set aside in a trust account, or that Ecology commit to some similar arrangement by which state funding is "pledged" to HarborWorks for use at the Site. For several legal and policy reasons explained at the meeting, a grant-funded trust is not viable at this time. As we explained, the grant award process requires that eligibility requirements must be met prior to funding. Most importantly in HarborWorks' case is the requirement that HarborWorks be a "potentially liable person" or "potentially responsible person" under an Order or Decree with Ecology or with the United States Environmental Protection Agency (EPA). HarborWorks does not currently meet either of these criteria.

While your preference was for the issuance of grant funds, you explained, that at a minimum, you were looking for a more general commitment that the state partner with HarborWorks. Our role with the cleanup of Port Angeles Harbor and the Site is the same today as it has been since before the startup of HarborWorks: as you and other governments of the Port Angeles community work towards the expedited, robust cleanup and restoration of the Site, the state is a committed partner. By this, we are referring in particular to Ecology's roles at the Site providing appropriate grants, supplying technical resources, and serving as the regulator, as described below.

Ecology has willingly collaborated and supported HarborWorks, the City and the Port in several ways. As a financial partner, Ecology last year awarded a \$200,000 grant to HarborWorks that contributed to your due diligence process. In response to City requests, we have invested over \$750,000 in projects supporting the harbor's future vitality and redevelopment. In our role as technical resource and to expedite cleanup, we are conducting two significant pollution studies of harbor sediments and upland areas. In our role as a regulator, we are holding Rayonier accountable to state law and are moving the cleanup forward on a defined and enforceable schedule. As a regulator, we will create legal paths for incorporating discrete incremental cleanup projects that support the City's combined sewer overflow improvement plan and the restoration of Ennis Creek.

The Port Angeles Rayonier Mill Site cleanup is a high priority for the Governor's Office and Ecology. It is one of seven focus areas for the Toxics Cleanup Program as part of their Puget Sound Initiative work. The cleanup is also noted as a priority action for the Puget Sound Action Agenda. These factors underscore the importance of this cleanup to the state. We share a strong commitment to cleaning up the Rayonier site and the economic and environmental well-being of Port Angeles and its surroundings. You can rely on our willingness to participate with you and other members of the community to reach these goals.

Since the August 3 meeting, we have re-evaluated the options available to Ecology regarding what more can be done to support HarborWorks at this early stage of the process, before it meets grant eligibility criteria. Based on the constraints of our existing regulations and exercising reasonable administrative discretion, we will make the following commitment: Ecology will hold the requested amount of \$4 million in remedial action grant funds for HarborWorks until the end of this calendar year. This is an unusual step for Ecology. However, we are willing to take this action in recognition of the high-priority nature of the Site and because of the high level of investment the city of Port Angeles and the port of Port Angeles have made.

The practical effect of this decision is that these funds will not be committed to other projects during that time. Should HarborWorks become eligible for remedial action grants before the end of the calendar year and meet grant funding requirements, Ecology agrees to negotiate with you for a grant up to that amount. This offer does not excuse HarborWorks from meeting Ecology's prerequisites for grant awards, including, but not limited to, meeting grant matching requirements from an eligible source, other than Rayonier contribution dollars. A grant amount would ultimately be negotiated for eligible costs based on a scope of work in an Order or Decree signed by HarborWorks.

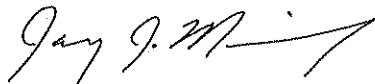
In closing, we return to another point made at the meeting. We are aware that Rayonier is not inclined to accept a purchase offer at this time, due largely, as we understand it, to remaining uncertainty about the full extent of its liability at the Site. However, should Rayonier and HarborWorks reach a purchase and sale agreement, we would expect:

- The terms to require Rayonier to pay for the cost of cleanup and restoration at the Site.
- Rayonier may want to explore ways to settle its liability with the state.

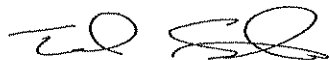
To avoid any confusion, we want to be clear that Ecology will not settle or cap Rayonier's cleanup liability at this time, before even an interim action plan for the Study Area is developed by Rayonier. For us, it rests on the requirement that Rayonier pay for its obligations and not leave the public to pay costs that are rightfully the company's.

We hope this letter clarifies how we can support HarborWorks, our recognition of HarborWorks' contributions to the community, and our support for Site cleanup. Again, thank you for the time to meet with us and explain the important issues and opportunities for cleanup and re-development of the Site. If you would like to further discuss these issues, please contact either Jim Pendowski, TCP Program Manager, at jim.pendowski@ecy.wa.gov / (360) 407-7177 or Rebecca Lawson, TCP/SWRO Section Manager, at rebecca.lawson@ecy.wa.gov / (360) 407-6241.

Sincerely,



Jay Manning, Chief of Staff
Office of the Governor



Ted Sturdevant, Director
Ecology

cc: Rebecca Lawson, Ecology
Jeff Lincoln, HarborWorks
Jay Manning, Office of the Governor
Kent Myers, city of Port Angeles
Jim Pendowski, Ecology
Jeff Robb, port of Port Angeles

(Distributed via email, with hard copy following to addressees.)